

OVERVIEW OF COMMUTER BUS INDUSTRY ISSUES

Overview of the presentation

- ⦿ Background
- ⦿ The impact of DORA
- ⦿ Policy direction or directionless policy?
- ⦿ The four model contracting documents
- ⦿ Reality check
- ⦿ The way forward

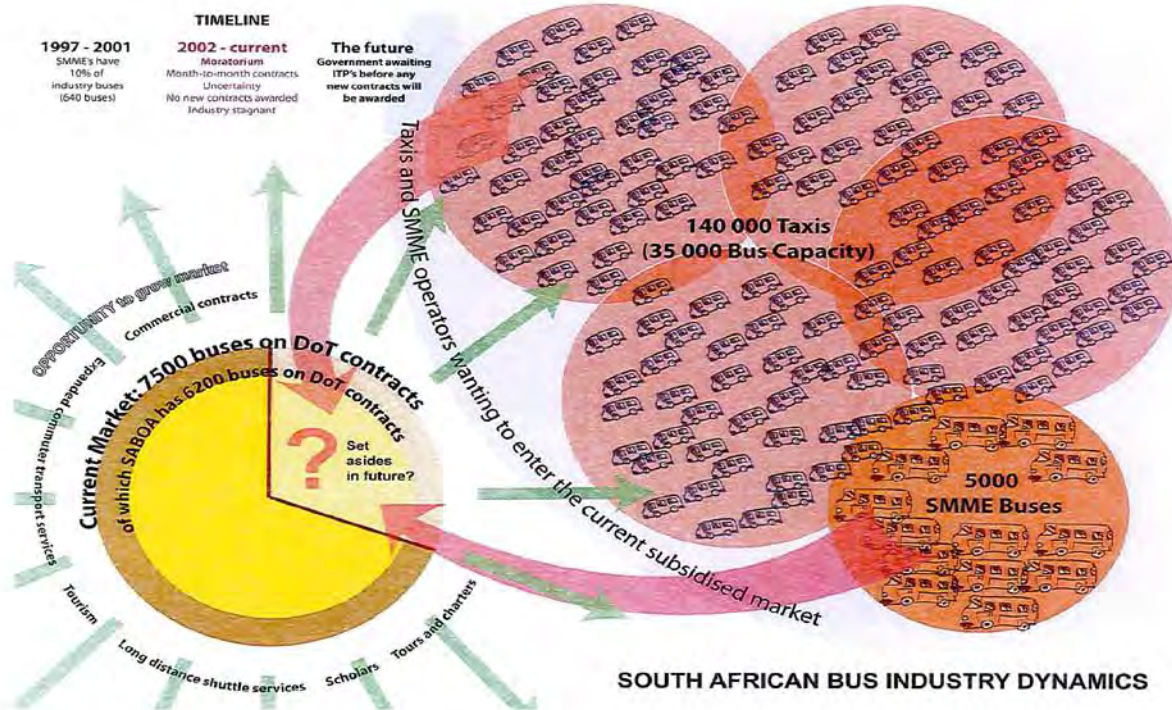
Background

- ⦿ The subsidised commuter bus industry is currently going through one of its most difficult times in its history
- ⦿ At the heart of the problem is the negative impact that DORA has on the financial well-being of the industry
- ⦿ The industry is no longer attractive due to:
 - lack of policy certainty,
 - serious financial risk,
 - govt. indecision,
 - short term contracts,
 - lack of policy progress, and
 - an apparent lack of govt. support for commuter bus transport vs. taxis and commuter rail

Background

- Rumours abound about the industry having “to give up” significant portions of its existing business to accommodate SMMEs and taxis (SMMEs already have 10% of the subsidised bus market – 640 buses)
 - What would the impact be on the “going concern” business?
 - What would the impact be on existing labour?
 - What would the impact be on planned investments in the industry?
 - How does this rhyme with “more and better public transport”? (National Development Plan objective)
 - How many taxis and SMME bus operators can really be empowered by taking away from existing operators?

The existing subsidised commuter bus industry cannot result in the empowerment of all taxis and small bus operators



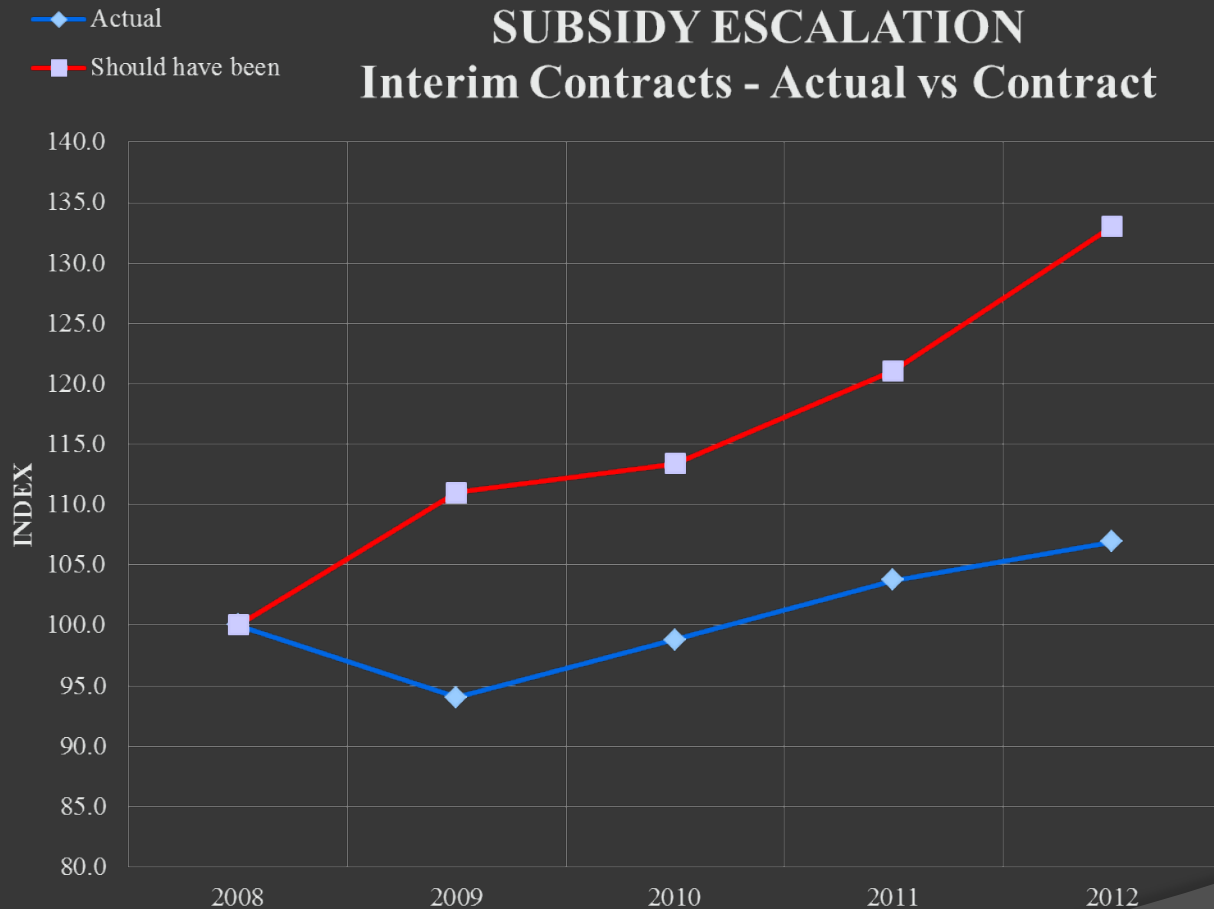
Under the current contract conditions....

- ⦿ Bus operators **cannot grow their service** (frequency of services and scope) – lack of adequate funding
- ⦿ Operators **cannot cut costs significantly** due to fixed schedules and a lack of integrated transport plans
- ⦿ Passenger fares are prescribed - **operators have little leeway to increase non-subsidy revenue** (by way of increased passenger fares) due to community resistance and difficult approval processes at the community and provincial levels
- ⦿ **Operators are not allowed to reduce the scope of their services** to suit the revenue generated through passenger fares and subsidy support
- ⦿ **Operators are unable to cover cost increases** with the current DORA levels of subsidy increases
 - There have been major increases in labour costs, diesel costs and costs associated with a weakened R/\$ exchange rate
 - The DORA escalations fall way below the required levels of support

Shaping the financial landscape of state support for commuter bus transport.... via DORA

- DORA had the following aims (amongst other) when it was introduced:
 - **To ring-fence bus subsidies** at the provincial level
 - **To limit an ever-increasing subsidy budget**
 - **To have a predictable subsidy budget** every year
- To achieve these aims all Interim contracts were converted from a passenger base to kilometre-based contracts
- **The actual contract kilometres were capped for all contracting forms** – Tendered, Negotiated and Interim
- A three-year “rolling budget” was introduced
- Treasury would decide what the annual DORA escalation would be – with the intention that the provinces will pick up the differences when compared to the agreed rate

The financial outcome of the DORA intervention in Gauteng



Notes:

1. In 2009 subsidies were decreased by 6% instead of being increased by 10.99%.
2. In 2012 the difference is between 3.05% actual vs 9.86% in IC escalation formula.

The impact of DORA

- ◎ The 2009 DORA intervention has had major consequences over the last 4 years:
 - **Operators are held “at ransom” re the contracted kms – public pressure forces them to offer non-subsidised services and to overload buses**
 - **Serious under-funding compared to the agreed contractual escalation formulas**
 - **Provinces plead poverty and cannot contribute, leaving the industry as the “ham in the sandwich” and serious under funding**

The impact of DORA

- ◎ DORA (and short term contract renewals) have impacted on:
 - Fleet replacement programmes
 - Maintenance programmes
 - Service levels and reliability
 - Scope and range of services
 - Overloading of buses
 - The financial sustainability of the industry
 - Industry safety
 - Customer service

Policy direction or directionless policy?

- **Progress with ITPs is very slow**
- Despite many strategies and policies there is a lack of policy progress and implementation
 - **There has been a moratorium on service expansion since 2001** despite significant immigration and major community needs

Policy direction or directionless policy?

- **Caps on kilometres operated on all contracts (in a growing market) since 2009 and before that on all tendered and negotiated contracts**
- **Nothing has come of the intention to extend the currently expired Interim, Tendered and Negotiated contracts for a further two year period by the end of the 2012/13 financial year.**

Policy direction or directionless policy?

- **Operators have been on month-to-month short term contracts since 2003 (10 years)** – no where in the world have we come across a similar situation
- **The short term extensions makes longer term investment decisions difficult** (e.g. new buses, new depots, new ticket machines, equipment, any capital investment, etc.)

Policy direction or directionless policy?

- This on-going **uncertainty about the future of contracts** affect the ability of bus operators to plan for the long term and to take capital investment decisions that will improve service delivery to passengers
- **The situation is akin to the mining industry where mixed signals and a lack of policy direction is leading to major under-investment in mines in the country**
- **Most bus companies are in financial difficulties**

The four model contracting documents

- ⦿ In terms of the White Paper on National Transport Policy and subsequent transport legislation, **subsidised public transport will be sourced based on a variety of contracts**
- ⦿ The development of these **contracting documents are thus crucial for the well-being of the industry as well as the provision of a stable, sustainable public transport system**
- ⦿ It is therefore strange that **many of the proposed clauses in the documents appear to have been designed in such a way that it will further prejudice the industry** and result in the further financial strangulation of the industry— in many cases a one-sided approach on critical issues

The four model contracting documents

- ⦿ Comments on the four model contract documents were concluded early in 2012 – these were **published in late January 2013 for additional comments**
 - **Net Cost Tender; Gross Cost Tender**
 - **Net Cost Negotiated; Gross Cost Negotiated**
- ⦿ Although many of SABOA's comments were incorporated in the latest documents, **many of the most critical comments were not taken up in the amended documents**
- ⦿ As these contracts are critical to future commuter transport operations **SABOA would like to discuss, in more detail, the impact of the following industry concerns:**

Areas of concern in the model contracting documents

- The inclusion of clauses that deal with the potential **purchasing of bus depots by the CA**
- Clause 37 that stipulates the escalation of fixed and variable contract rates on a monthly basis **but that this will be limited to the percentage increase in the Public Transport Operations Grant** allocated to the Contracting Authority by the Grant Framework published in terms of the Division of Revenue Act for the financial year in question
- **A sophisticated performance monitoring system** contained in Schedule 9 that has not been discussed with the industry

Table 1: KPI Benchmark and score values

KPI	Benchmark value (Standard)	Score Values
Reliability	98%	<98% = 0; ≥98% = 1
Punctuality		
• On-time departures at terminals & intermediate points	95%	<95% = 0; ≥95% = 1
• On-time arrivals at terminals & intermediate points	90%	<90% = 0; ≥90% = 1
Driver quality		
• Passenger complaints	2%	≤2% = 1; >2% = 0
• Surveys	2%	≤2% = 1; >2% = 0
Bus availability	98%	<98% = 0; ≥98% = 1
Vehicle quality		
• General vehicle condition	2%	≤2% = 1; >2% = 0
• Technical vehicle condition:		
(i) breakdowns	2%	≤2% = 1; >2% = 0
(ii) technical bus inspections	0 serious defects/bus 1 other defect/bus	0 = 1; >0 = 0 ≤ 1 = 1; >1 = 0
(iii) maintenance procedures	100%	<100% = 0; 100% = 1
(iv) Roadworthy certificate pass rate	98%	<98% = 0; ≥98% = 1
Safety	1%	≤1% = 1; >1% = 0
Passenger satisfaction	95%	<95% = 0; ≥95% = 1
Contract compliance		
(i) information & reports	100%	<100% = 0; 100% = 1
(ii) adherence to CA & SMF instructions	100%	<100% = 0; 100% = 1
(iii) staff training	100%	<100% = 0; 100% = 1
(iv) fit and maintain ticketing equipment	100%	<100% = 0; 100% = 1

Areas of concern in the model contracting documents

- **Clauses to the effect that a portion of private hire income will need to be transferred to the Contracting Authority, even though the buses are owned by the operator**
- **Clause 39.23 which stipulates that the contract rates could be amended in the case of extraordinary circumstances**
- **There has been no discussion on how to implement S197 of the LRA, nor how the proposed model tender documents should be amended to cater for S197**

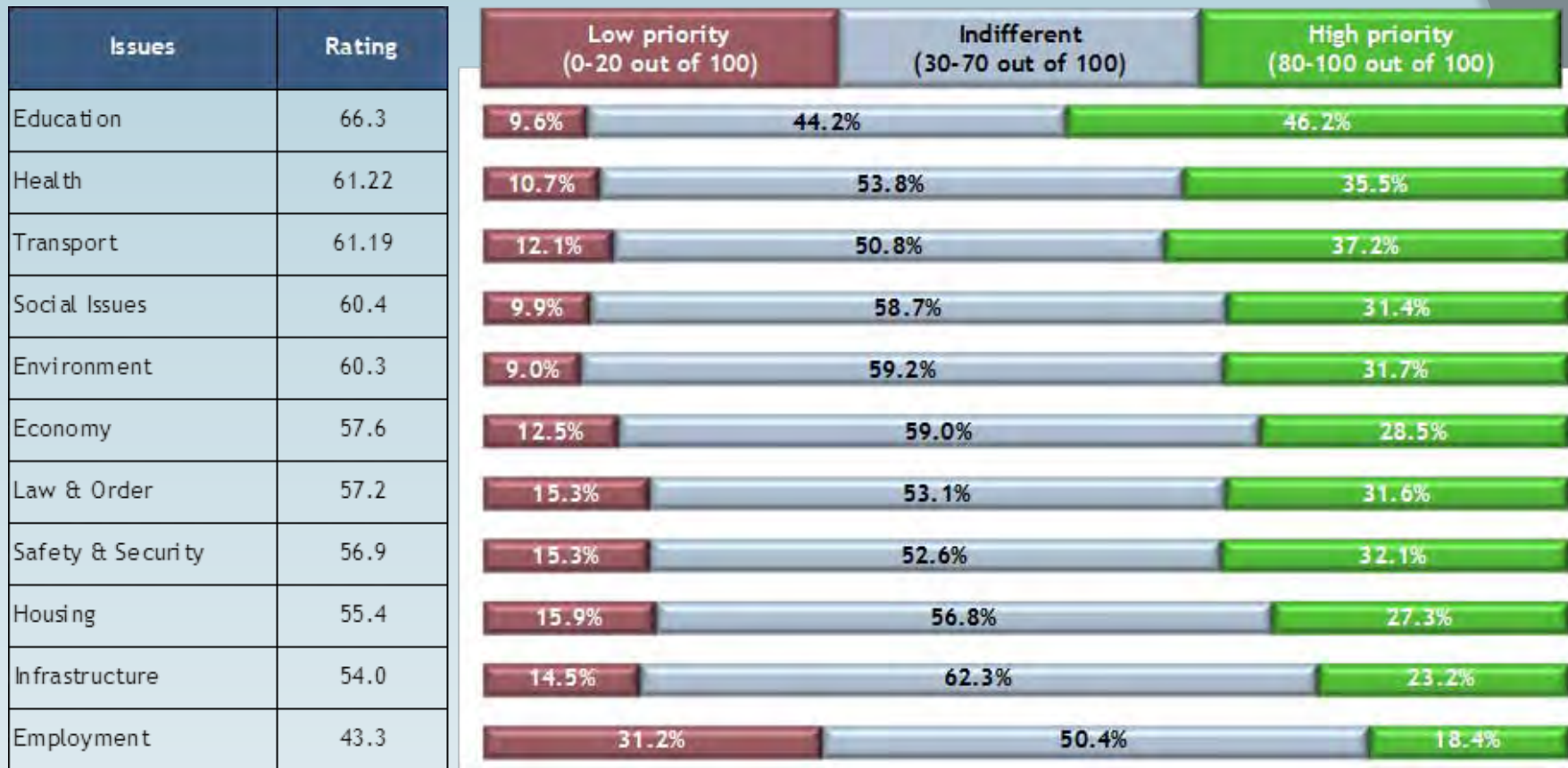
Areas of concern in the model contracting documents

- Clause 48.5: a section that stipulates that **the CA may cancel a contract under certain conditions** such as (a) that the service is no longer required in its present form, or that another transport mode will be more suitable; or (b) national, provincial or local transport policy requires it - **with a three months notice period and then a stipulation that to pay the operator such damages as the operator is able to prove, provided that such damages shall not exceed 10% of the value of the uncompleted services**

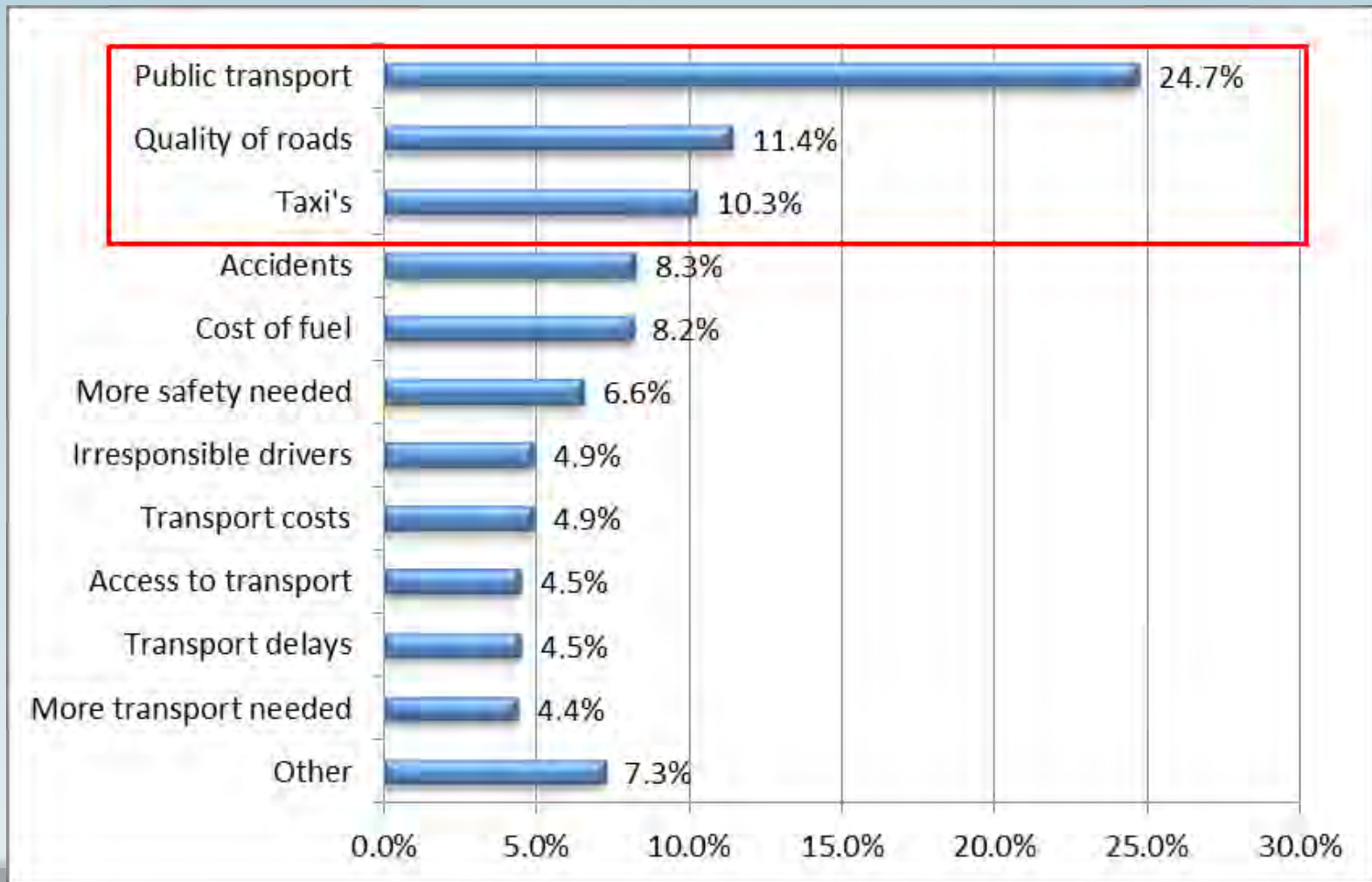
Reality check

- **There is a major need for adequate and affordable bus services:**
 - **The major growth in IC operations** (passenger volumes) before DORA was implemented is testimony to the need for affordable and accessible services
 - **The 2011 Census information on:**
 - Increasing urban populations e.g. in Gauteng alone from 7.8m in 1994 to 12.3m in 2011; Western Cape from 3.9m to 5.8m
 - The emphasis of the **National Development Plan 2030** on more reliable and affordable public transport and better coordination between various modes of transport; better quality public transport
 - **The DoTs 2003 Household Travel Survey** pointed to issues such as affordability, safety, accessibility etc. of PT
 - **An ITLS (Africa) national survey** of 1000 respondents indicated that public transport is the third highest national priority issue for respondents

Rating priority national issues

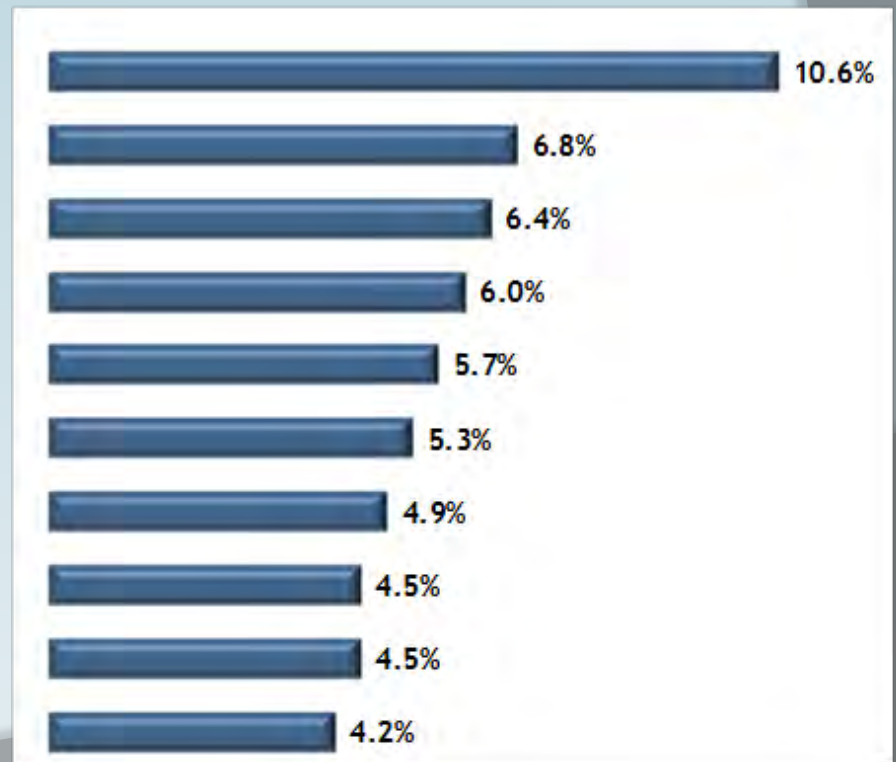


Highest national transport issues



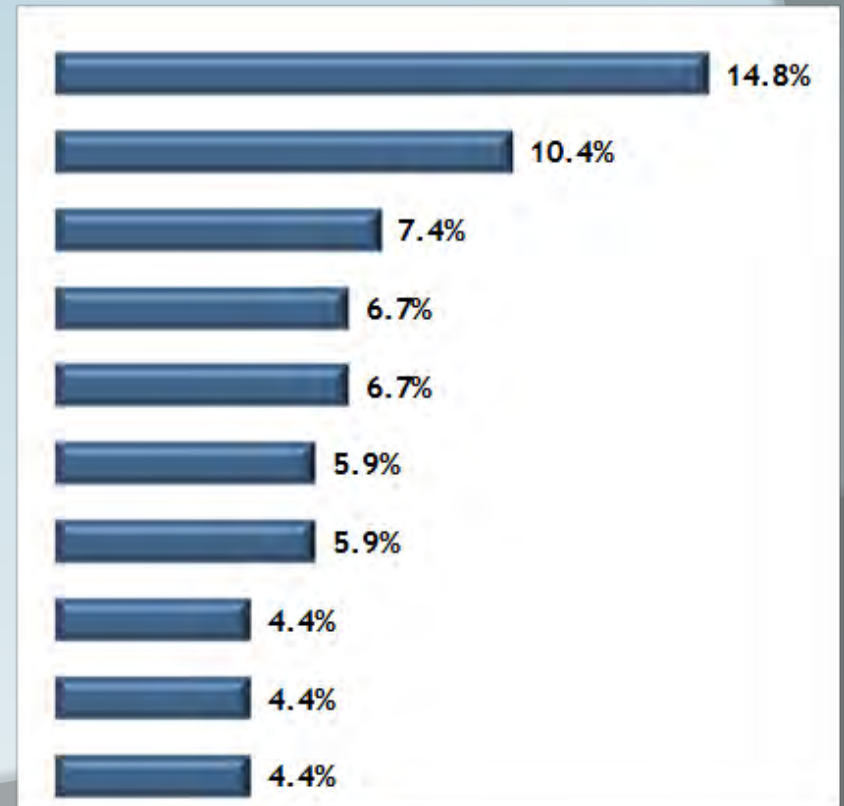
Highest transport issues: Gauteng

What do you think is the highest priority issue for transport in South Africa now?	
Gauteng	Percentage
Public transport	10.6%
Taxi's	6.8%
More safety needed	6.4%
More transport needed	6.0%
Cost of fuel	5.7%
Trains	5.3%
E-tolling system	4.9%
Transport delays	4.5%
Access to transport	4.5%
Accidents	4.2%



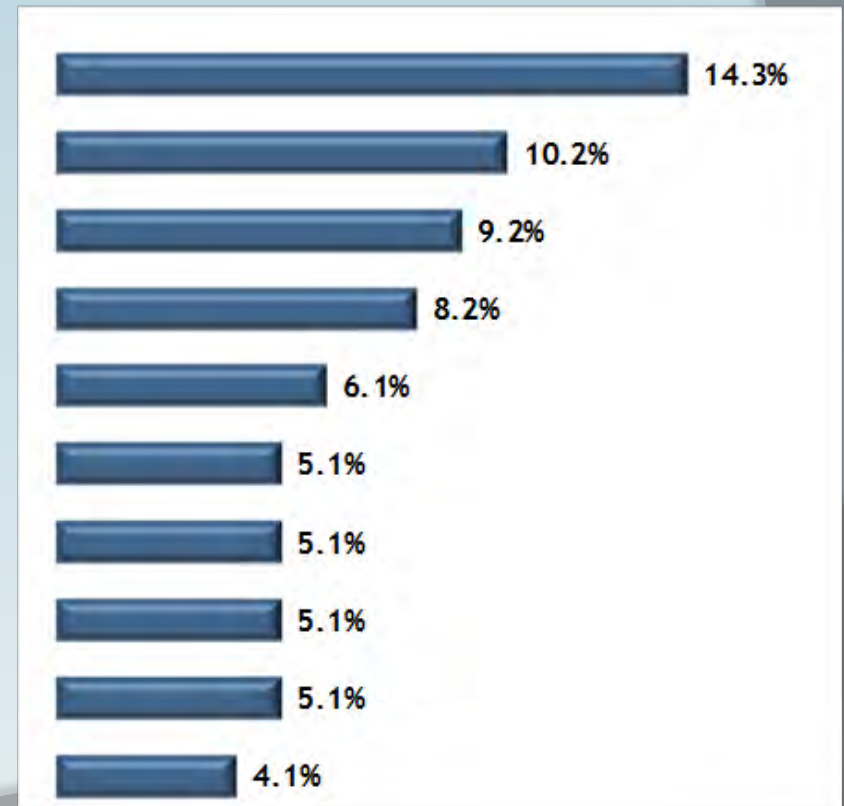
Highest transport issues: Limpopo

What do you think is the highest priority issue for transport in South Africa now?	
Limpopo	Percentage
Public transport	14.8%
Cost of fuel	10.4%
Transport costs	7.4%
Quality of roads	6.7%
Taxi's	6.7%
More safety needed	5.9%
Accidents	5.9%
Access to transport	4.4%
More transport needed	4.4%
Public transport in rural areas	4.4%



Highest transport issues: Mpumalanga

What do you think is the highest priority issue for transport in South Africa now?	
Mpumalanga	Percentage
Public transport	14.3%
Cost of fuel	10.2%
Quality of roads	9.2%
Accidents	8.2%
Access to transport	6.1%
More safety needed	5.1%
Irresponsible drivers	5.1%
Potholes	5.1%
Taxi's	5.1%
More transport needed	4.1%



Reality check

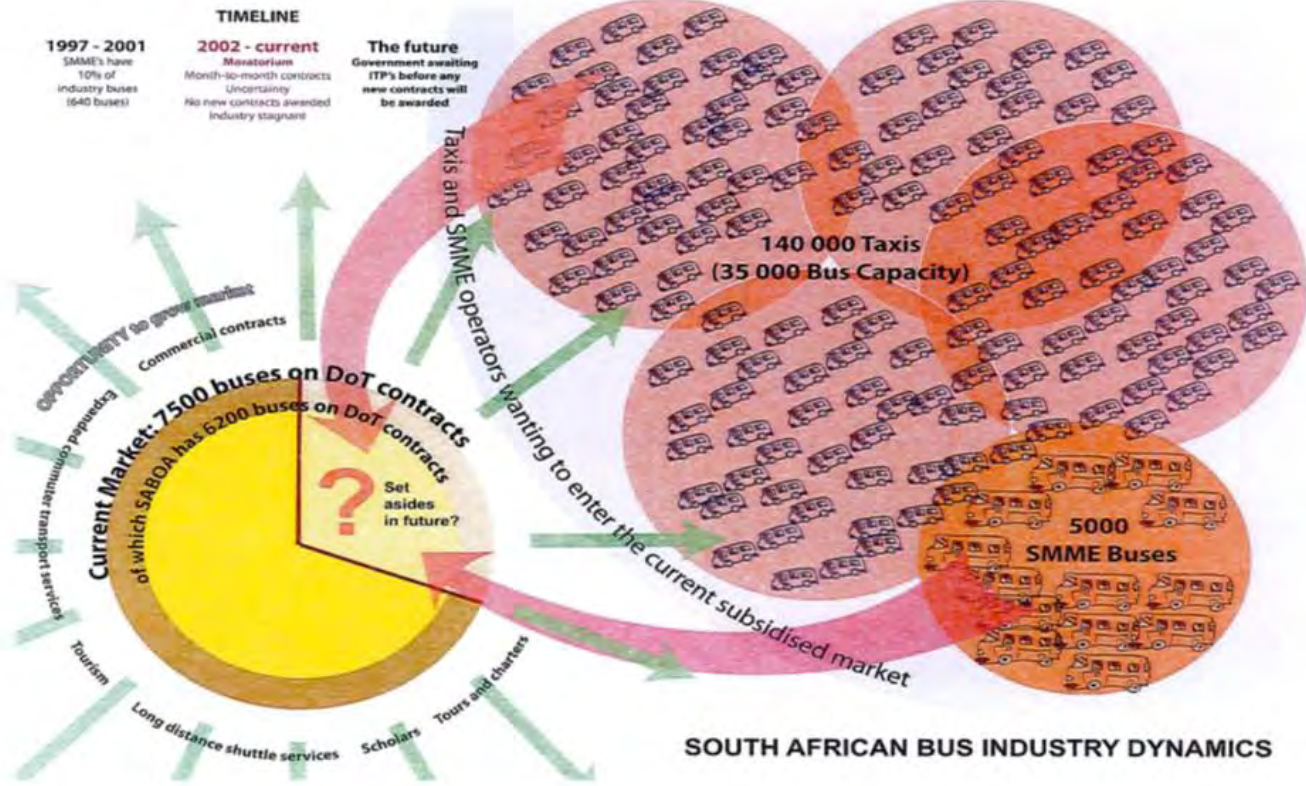
- **Increasing household expenditure** on food, transport, electricity, water, potential new toll roads etc. necessitates affordable, accessible public transport
- **General lack of alternatives to the car and walking**
- **Government promises to improve public transport** – we now have Gautrain and 2 BRT lines but what about the bulk of existing PT services upon which the majority of commuters rely for their daily transport needs?
- **The raging media debate** about the lack of public transport as an alternative to the car and the use of toll roads

Four options are available to deal with the current financial situation (from an operator perspective)

- ⦿ **More funding must be made available and longer term contracts entered into**
- ⦿ **Should this not be possible, then:**
 - **Higher and more regular fare increases must be approved** and jointly communicated by operators and government
 - **Non-subsidised trips must be discontinued**
 - **Scope of services must be curtailed** (right-size the industry to measure up to the available funding)

The way forward...

- ⦿ There is a need to **stabilize the industry**
- ⦿ **Restore faith in its future**
- ⦿ **Use the current expertise**
- ⦿ There is a need for **clear policy signals** to ensure adequate investments in equipment, infrastructure and manpower
- ⦿ **There is a huge market that is not served** by existing bus operators that provide a major opportunity for new additional services, JVs etc.
- ⦿ **The entire system should expand** and the empowerment of taxi and SBOs should not mainly be at the expense of existing bus operators (e.g. carving up the existing subsidised market to accommodate new entrants).



Thank You